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SaskTel

1986

Annual Report

Individual Line Service

Bringing privacy, convenience, and choice to rural Saskatchewan

Corporate profile

Saskatchewan Telecommunications (SaskTel) is a provincially owned crown corporation responsible for providing local, long distance, and related data and image telecommunications services within the province of Saskatchewan. Similar services, on a national and international level, are offered through the corporation's membership in Telecom Canada.

The corporation employs approximately 4,500 people, the majority located in Regina (head office) and Saskatoon. Employee groups are also stationed throughout the province in 60 other communities.

SaskTel dates back to 1908 when the Department of Railways, Telegraphs, and Telephones was established by an act of the Saskatchewan legislature. In 1947, the organization became a crown corporation known as Saskatchewan Government Telephones (SGT). The name was changed to Saskatchewan Telecommunications (SaskTel) in 1969 to reflect the growing diversification of its many products and services.

As an innovative leader in the telecommunications industry, the corporation continues to provide quality, reasonably priced services by applying the latest technological advances in the most economical way.

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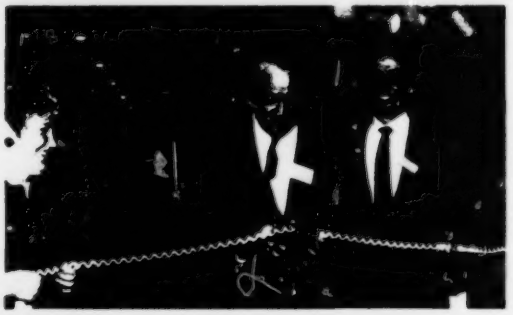

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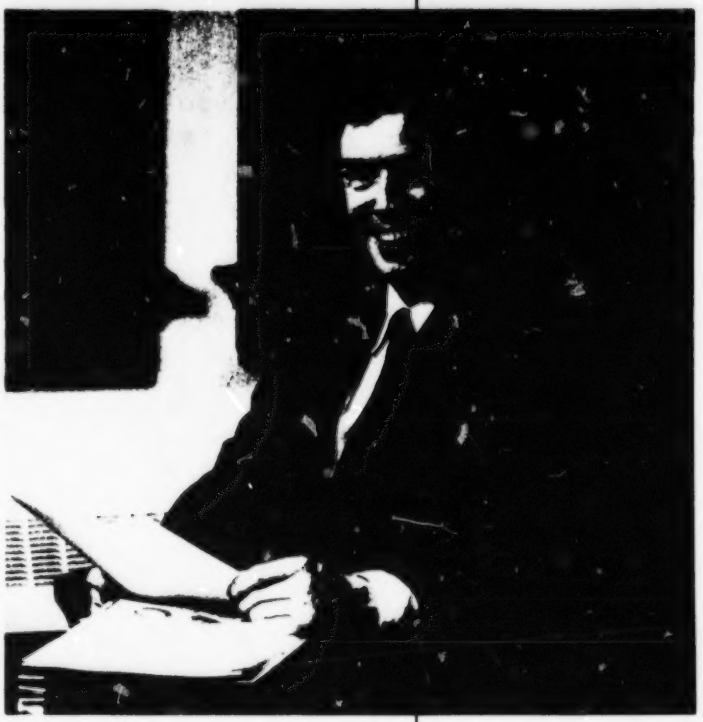
Cover illustration

The extension of Individual Line Service to all areas of the province began in 1986. When completed, by early 1991, more than 70,000 rural customers will have equal access to the same products and services currently available to residents in larger urban centres.



Letter of transmittal

Regina, Saskatchewan
March 27, 1987

To His Honour
The Honourable F.W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the annual report of Saskatchewan Telecommunications for the year ending December 31, 1986, including the financial statements therefor, duly certified by the Provincial Auditor, and in the form approved by the Treasury Board, all in accordance with The Saskatchewan Telecommunications Act.

I have the honour to be, Sir,
Your obedient servant,

Hon. J. Gary Lane, Q.C.
Minister Responsible for
Saskatchewan Telecommunications

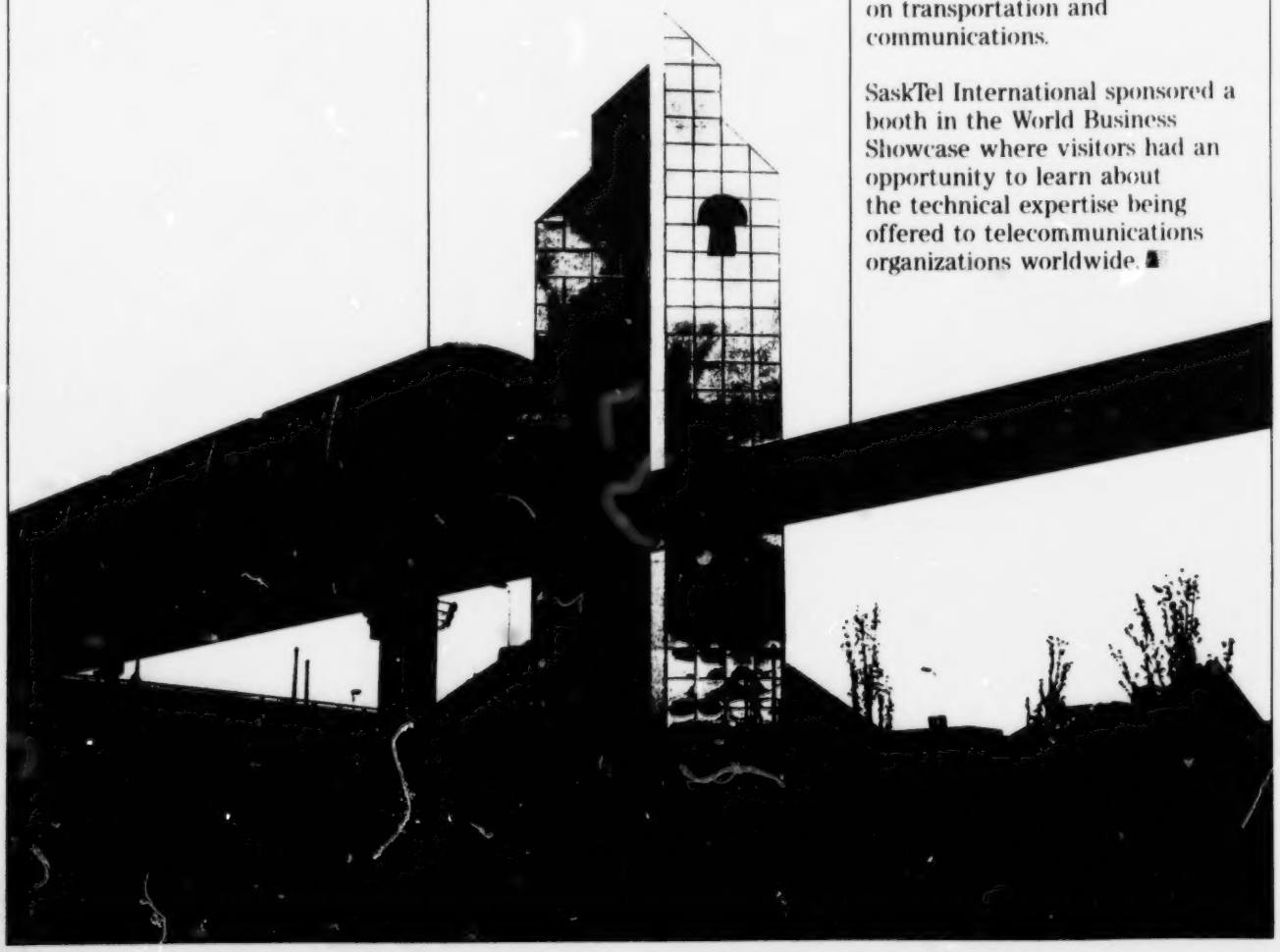
Accolades for Expo

By all accounts, Expo 86 was a resounding success. More than 22 million visitors had passed through the Expo turnstiles by the time closing ceremonies took place in Vancouver on October 13.

As a member of Telecom Canada, SaskTel participated in the production of "Portraits of Canada". The Saskatchewan segment of the film, shown in the 360-degree Circle-Vision theatre at the Telecom Canada pavilion featured a touching rural Christmas scene.

In addition, SaskTel was the corporate sponsor of the Hall of Innovation in the Saskatchewan pavilion. The hall featured displays saluting the ingenuity of Saskatchewan people, including a fiber optic display and an exhibit of communications networks along with an audio-visual presentation on transportation and communications.

SaskTel International sponsored a booth in the World Business Showcase where visitors had an opportunity to learn about the technical expertise being offered to telecommunications organizations worldwide.



President's report

This has been yet another year in which SaskTel has taken steps ahead in our industry. It has been an eventful, dramatic and highly productive year which will benefit our customers today and for future generations.

The decision to begin the rural Individual Line Service (ILS) program has committed SaskTel to the biggest single construction project in its history. This mega-project, involving an expenditure of some $264 million, will engage a large part of SaskTel's work force as well as contractors and other suppliers for five years, and will provide more than 70,000 rural customers with urban-quality service.

Another major project that is benefitting all of SaskTel's customers is a five-year program to upgrade central office switching equipment to digital technology. This $128 million program will provide the benefits of digital technology to more than 98 percent of SaskTel's customers by early 1991.

At a time when world economic conditions seem to be conspiring against our agricultural industry, SaskTel is pleased to be able to bring a positive contribution to the rural life of the province.

Saskatchewan will be the first province in Canada to eliminate party lines — another in a growing list of firsts for SaskTel and a worthy successor to the completion, in 1984, of the world's first major commercial fiber optic transmission system.

While the cost of the five-year ILS program is substantial, SaskTel's financial position remains strong for the third year in a row, and the company's projection is for continued sound financial performance.

Our net earnings for 1986 were $36.5 million, which allowed the Board of Directors to declare a

dividend of $18.3 million, to be paid to the province early in 1987. These earnings were derived from operating revenues which, for the second consecutive year, have exceeded $400 million.

While extending individual line service will benefit rural customers for years to come, there remains another step to be taken to further improve rural service.

During the past summer, SaskTel assisted the telephone Exchange Areas Boundaries Review Board appointed by The Honorable Gary Lane, the Minister Responsible for SaskTel. Its task was to gather first hand information from a cross-section of rural Saskatchewan, involving visits to 22 communities and an extensive research survey project.

The challenge is to determine the changing communities of interest and how exchange areas might best reflect current needs.

We see the future of SaskTel tied inseparably to the marketplace. During the past year a strong, positive step was taken to realign our human resources in a manner reflecting our philosophy that service to the customer must be our foremost concern. Our Corporate Effectiveness Program, described in detail later in this report, created new departments, streamlined the reporting structures and placed accountability where it should be, on the front line.

As a crown corporation we have a mandate to pursue public policy initiatives, a dimension beyond that of the private sector. While this is an added challenge, we are committed to applying the principles of sound business practice used by our growing list of competitors.

In my view, we have one of the best trained, most dedicated group of employees in the industry. We know we can meet any challenge the marketplace presents to us, but we must be prepared to act upon, rather than react to, opportunities before they become obvious. The compact corporate structure we have adopted is aimed at having the people in place to anticipate needs and have solutions in place before competitors know they are needed. This is the key to our continuing success.

We are grateful to the guidance and understanding we receive from the Board of Directors and the high level of ongoing support the government affords us.

My first year as President and Chief Executive Officer has been a challenge of the most rewarding kind. I look forward to the future knowing SaskTel has what it needs in terms of people, support and resources to continue its role as one of the leading telecommunications carriers in the world.

James A. Coombs
President and
Chief Executive Officer

About the President

James A. Coombs was appointed President of SaskTel on February 17, 1986, succeeding Frank A. Degenstein*, who retired in January.

Mr. Coombs brings to SaskTel more than 30 years of experience in Canadian telecommunications. He joined Bell Canada in 1952, immediately after graduating from the University of Western Ontario with an honors degree in economics and political science. He held a number of management positions at Bell Canada before being appointed Assistant Vice President, Regulatory Matters.

Mr. Coombs joined The New Brunswick Telephone Company Limited as Vice President, Finance in 1976, and became Vice President, Operations in 1982, from which position he joined SaskTel.

As the chief architect of SaskTel's new organizational structure, Mr. Coombs' experience with other successful telecommunications organizations will prove valuable in guiding the corporation along its new path toward the future.

**After retiring from SaskTel, Mr. Degenstein was appointed President of Telecom Canada, the consortium of Canada's ten major telecommunications carriers which provides voice, data and image transmission services through a nationwide network.*

Party line days are numbered

Rural Individual Line Service program begins in Saskatchewan

Ever since SaskTel was created, nearly 80 years ago, the corporation has constantly maintained its leadership in the telecommunications industry.

Whether constructing long distance lines and telephone exchanges in the early 1900s, or building the world's first large-scale fiber optic network in the 1980s, SaskTel's objective has always been to provide Saskatchewan residents with the most modern telecommunications facilities possible. By taking advantage of the latest technological advances over the years, SaskTel has built a highly reliable telecommunications system which provides services to its customers at rates that remain among the lowest in North America.

Breaking new ground

In 1986, SaskTel took another bold step into the future. The start of a mega-project during the year will result in the virtual elimination of rural multi-party lines in the province by early 1991. The leadership shown by SaskTel in providing rural residents with the same high-quality telecommunications services enjoyed by urban residents follows a tradition begun many years ago.

As early as 1924, the percentage of farmers with telephone service was greater in Saskatchewan than in any other province in Canada. The corporation constantly improved its rural system during the decades that followed and in 1982 completed a six-year, $90 million Rural Service Improvement Program. Thousands of kilometres of pole lines were replaced with more reliable underground cable. The project improved telephone services to rural areas by reducing the number of customers on multi-party lines. It also helped pave the way for the current rural Individual Line Service (ILS) program.

Extending individual line service throughout Saskatchewan is the latest phase in SaskTel's commitment to rural development. The $264

million project will bring the convenience of a line available at any time and will ensure the privacy of telephone conversations to 72,800 multi-party line customers.

Approximately 30,000 multi-party customers will have their service upgraded during the first two years of the conversion program. Work is already under way in telephone exchange areas where central office equipment extensions and cable capacity increases can be most easily accommodated.

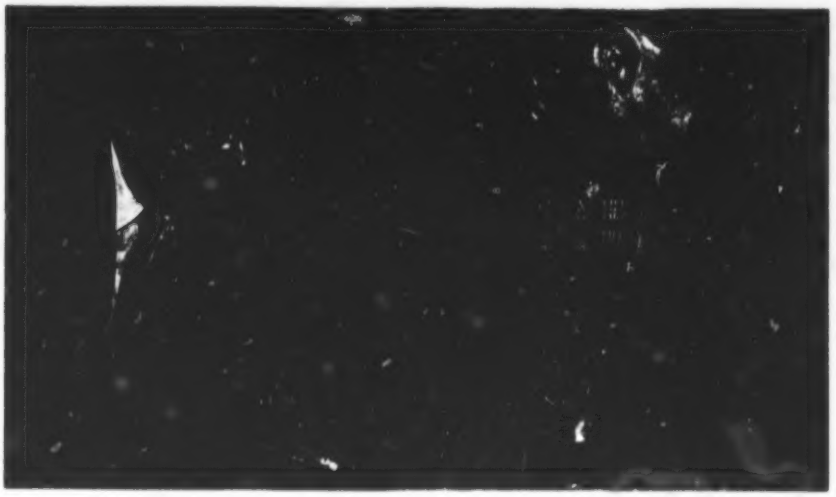
By year end, 41 exchange areas had been converted and cutover into service and the installation of buried cable was completed in an additional 34 exchanges. During 1986, cable plows buried 8,680 kilometres of cable.

A major portion of the cost for the program, some $143 million, will be spent to purchase and install 36,000 kilometres of cable throughout the province. Another $111 million will be spent on transmission facilities and related equipment. The replacement of multi-party line telephone sets will account for a further $10.5 million.

New services and products

Besides the advantages of privacy and convenience, individual line service will provide full access to a broad range of communication services and products previously available only to urban residents. Rural individual line customers ultimately will be able to select from a full range of products such as cordless phones, telephone answering units, and telephone sets which can handle both voice and data transmission.

When customers receive ILS, they can then rent or purchase their own extension telephone sets from SaskTel or from other suppliers. Brochures are being mailed to rural customers describing the wide variety of new phones and features available, such as touch tone, last number redial, and abbreviated dialing.



Above — George Spencer explains the ILS program to rural residents during one of the many town hall informational meetings held throughout the province in May and June.

Left — Hon. Gary Lane, Minister Responsible for SaskTel (centre), along with George Spencer, Vice President — Operations South, of SaskTel (left), and Alphonse Sterzer, Mayor of Balgonie, officially inaugurate the rural ILS program near Balgonie on May 12, 1986.

Business customers, including those in the agricultural industry, will be offered an extensive line of other telecommunications options such as Envoy 100 (electronic mail) and iNet 2000 — opening the way to many national and international electronic databases. In addition, rural business customers will have access to WATS service, which provides volume discounts for outgoing long distance calls; and 800 service, which allows businesses to provide toll-free calling for their out-of-town customers.

Although the program represents an average investment of approximately $3,600 for each upgraded line, customers will not be charged for any of the capital and installation costs. For most of the customers involved, monthly rental rates for basic service will increase slightly, but have been capped at a maximum of from $10 to $12 per month for residential customers, and from $20 to $24 per month for business customers, depending on their rate group.

There are three rate groups within the province. Regina and Saskatoon customers are in rate group three and pay the highest monthly rental rates for basic service. Customers in all other cities are in rate group two, with the lowest monthly rental rates for basic service paid by the remaining customers who are in rate group one.

Most of the capital for the program will come from SaskTel operating revenues during the five-year construction program. SaskTel's strong financial performance, reflected by net earnings of more than $36 million in each of the last two years, was one of the major reasons the corporation was able to proceed at

this time with the most capital-intensive program in its history.

Digital evolution continues

While the ILS program will dramatically improve service to 72,800 rural customers, urban residents will also share in the benefits. Many central office switching centres throughout the province will be expanded to accommodate the thousands of new individual lines. To facilitate this, a related $128 million program, involving the replacement of older step-by-step switching equipment with ultra-modern digital systems, has been greatly accelerated so both projects will be completed by early 1991.

The new digital equipment will provide both rural and urban residents with services previously available only to customers in the larger urban centres. Direct dialing overseas and zero-plus dialing, along with custom calling features such as call forwarding, speed calling, call waiting, and three-way calling are but a few of the advanced telecommunications services soon to be available throughout most areas of the province.

New jobs already have been created as a result of the ILS program's implementation, both within SaskTel and among outside suppliers involved with construction, cable plowing, cable manufacturing, and associated switching and transmission equipment. Canada Wire and Cable Limited at Weyburn, for example, is expanding its manufacturing facilities, and Inventronics at Moose Jaw has obtained a $750,000 contract to manufacture cable terminals. Northern Telecom was also gearing up to supply cable and digital switching equipment to SaskTel.

SaskTel is the first telecommunications company in Canada to undertake a program of such magnitude.

On the road to an all-digital network

Among all the telecommunications advances over the last decade, none will have a more profound benefit to Saskatchewan people than the widespread deployment of digital technology. In the larger urban centres, digital technology already provides SaskTel customers with the ability to transmit much larger volumes of information, at higher speeds, and with greater clarity and reliability than with systems used in the past. Since operation and maintenance of this new technology is more cost-effective, it allows SaskTel to offer customers many advanced telecommunications services at affordable rates.

Every time SaskTel replaces a piece of outmoded mechanical switching equipment with digital technology, or installs a new digital transmission system, it takes another step toward creating the "intelligent network" of the future.

The completion of the ILS program in rural Saskatchewan and the accelerated deployment of digital systems by early 1991 will bring SaskTel even closer to having in place an end-to-end information age delivery system.

Technology reshaping the network

Two recent technological advances have made possible the conversion to an all-digital system. The first is the use of computerized digital switches to route messages, and the second is the advent of new high-speed digital transmission methods such as fiber optics. These two technological innovations have significantly increased the capacity and flexibility of the network.

In the future, as the pace of technological innovation accelerates, an advanced digital network will be critical in order to provide the flexibility needed to offer the enhanced services customers will require to operate effectively and efficiently. The use of these new services will in turn contribute to increased operating revenues for SaskTel.

Ted Matthews, a Saskatoon switchman, examines a circuit board from a digital switching system.

Framework for the future

Corporate Effectiveness Program

Like many major corporations, SaskTel faces the challenge of managing internal change to achieve the most productive response to external demands. A corporate realignment announced in mid-1986 gave clear evidence that SaskTel is preparing for the new challenges ahead.

Customer satisfaction all important

The general thrust of the program is to reshape SaskTel's traditional organizational structure toward a more market-oriented approach to conducting business. Specifically, it can be described in just two words — customer first.

The new emphasis is on customer satisfaction above all else. No longer will customers be required to deal with several individuals or groups within the company when requesting a number of different products and services. The approach will be to provide a single point-of-contact. Customers will deal with just one person. That individual will then do all the necessary legwork on behalf of the customer within SaskTel and contact the appropriate people within the company in order to provide complete solutions to each customer's requirements, no matter how complex.

Eight departments, each headed by a vice president, have replaced the four departments and a number of other groups which existed previously. The company is now divided into Operations North, with a vice president located at the company's North Division headquarters in Saskatoon; Operations South; Engineering; Business Development; Finance and Corporate Development; Human Resources, Supplies and Services; Corporate Affairs; and Corporate Counsel. The president of SaskTel International, a wholly-owned subsidiary and international marketing arm of the corporation, reports directly to SaskTel's president.

The realignment, known internally as the Corporate Effectiveness Program, was introduced in September. It began at the vice president level and is being phased in throughout the remainder of the organization.

A renewed commitment

In order to succeed in this new approach to business, all SaskTel employees have been asked for a renewed commitment to excellence. This applies throughout the corporation, from the selection of quality products to providing services. Only through this commitment and teamwork can customer expectations be met or exceeded.

Technological advances and increasing competition are but two of the factors that have made it necessary to transform the way SaskTel conducts its business. As the pace of competition accelerates, the new approach will result in improved customer service while preserving the traditional values on which SaskTel's success and integrity have been built.

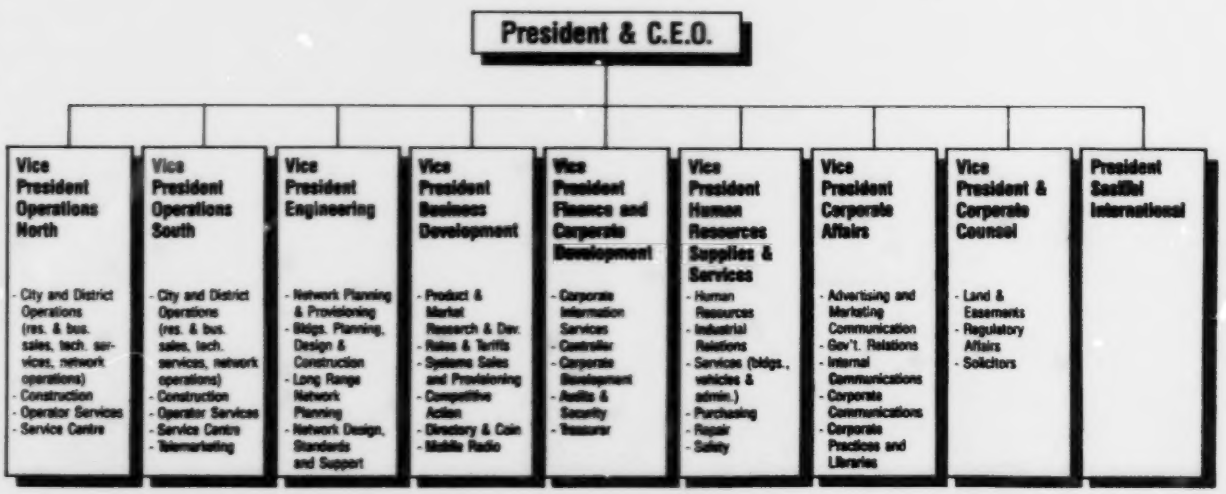
It is anticipated that most employees will view this latest challenge as an opportunity to deal effectively with the changes that are widespread throughout our industry. SaskTel's approach is to evolve with change, learn to be more flexible, and to adapt to today's realities in order to meet new customer demands.

Intensive research

The new structure was put in place following detailed studies internally and by external consultants. In addition, studies were conducted among other telecommunications companies throughout Canada and the United States. A province-wide tour by SaskTel President James Coombs also provided significant input from employees which was used to fine tune the realignment before changes were announced.

"We've had to redefine our corporate strategy to ensure we're on the clearest path to our objectives," said Mr. Coombs, commenting on the Corporate Effectiveness Program. "We've done all these things because our future depends on the level of service we provide to our customers. We must continue to improve so that no one else can ever serve them better than we do."

"We've had to redefine our corporate strategy to ensure we're on the clearest path to our objectives"


President & C.E.O.
Vice President Operations North
- City and District Operations (res. & bus. sales, tech. services, network operations)
- Construction
- Operator Services
- Service Centre
Vice President Operations South
- City and District Operations (res. & bus. sales, tech. services, network operations)
- Construction
- Operator Services
- Service Centre
- Telemarketing
Vice President Engineering
- Network Planning & Provisioning
- Bldgs. Planning, Design & Construction
- Long Range Network Planning
- Network Design, Standards and Support
Vice President Business Development
- Product & Market Research & Dev.
- Rates & Tariffs
- Systems Sales and Provisioning
- Competitive Action
- Directory & Coin
- Mobile Radio
Vice President Finance and Corporate Development
- Corporate Information Services
- Controller
- Corporate Development
- Audits & Security
- Treasurer
Vice President Human Resources Supplies & Services
- Human Resources
- Industrial Relations
- Services (bldgs., vehicles & admin.)
- Purchasing
- Repair
- Safety
Vice President Corporate Affairs
- Advertising and Marketing Communication
- Gov't. Relations
- Internal Communications
- Corporate Communications
- Corporate Practices and Libraries
Vice President & Corporate Counsel
- Land & Easements
- Regulatory Affairs
- Solicitors
President SaskTel International

Open for business

Business Centre opens in Saskatoon

Providing the right solutions to today's complex telecommunications needs is the key to serving SaskTel's business customers. With the opening of SaskTel's Business Centre, the corporation provides both its large and small business customers with a convenient place where they can find versatile, cost-effective solutions.

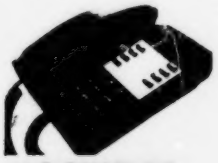
Today's customers are choosing from a veritable supermarket of technology, presenting ever-widening possibilities, alternatives, and options. The new facility in Saskatoon is a convenient, one-stop shopping centre featuring products and services designed to handle any business communication requirements. A similar centre opens in Regina early in 1987.

At the Business Centre service starts by gaining an understanding of what a customer needs and wants. Technology has created a dazzling array of choices that often bewilder the buyer. The primary duty of the sales staff at each centre is to provide customers with an understanding of all the options available, and to explain the advantages of the appropriate products and services on display.

Only when a customer selects the right product or service and realizes its full potential are the corporation's new marketing standards met. Only when service exceeds expectations is the "customer first" goal truly attained.

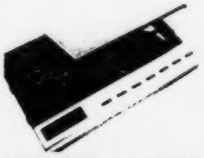
The Business Centre is a natural expansion of SaskTel's successful venture into the retail sales business through the opening of a Telmart store in Regina in 1984 and Saskatoon in 1985. Catering to the needs of residential customers with a large selection of quality telephone equipment, smaller versions of Telmart stores have been established in Estevan, Moose Jaw, North Battleford, Prince Albert, Swift Current, Weyburn, and Yorkton.

4 Great Little Numbers From SaskTel



#1 SIGNATURE

- Memory dialing
- Speed-call directory index
- Visual ringing light
- One-button access to optional custom calling
- Business and residential rental

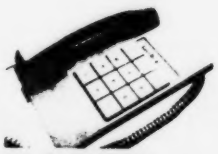


#2 CODE-A-PHONE 4250

- Answer/record unit
- Remote retrieval/review
- Remote announcement
- Business and residential rental

#3 SOLO

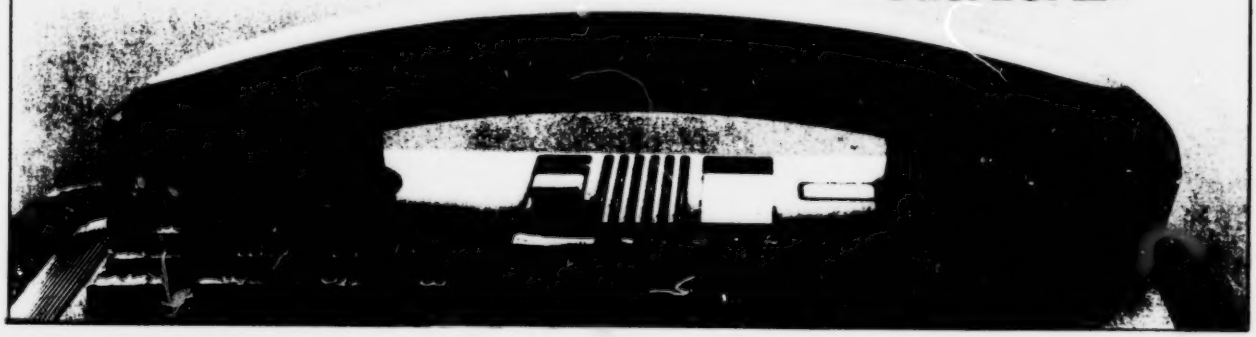
- 10-number memory dialing
- One-button access to three emergency numbers
- Handset dial
- Residential rental



#4 CITATION

- Pull-out personal directory
- Large touch tone key pad
- Desk or wall model
- Business and residential rental

SaskTel



The Business Centre has been designed with display and sales areas where customers can obtain hands-on experience with a large number of systems. Demonstrations will cover all the functions of business telephones, computer modems, personal computer printers, complex communications systems and even specialized equipment like AutoPhone, SaskTel's new mobile-radio telephone. Customer training on the use of their new systems is also available.

In addition to the latest products available, enhanced business services such as Envoy (electronic messaging) and iNet (database access) are offered by SaskTel in conjunction with Telecom Canada. These provide business customers with valuable tools for information management which allows them to improve the effectiveness of their communications.

During 1986 SaskTel concentrated significant resources on understanding better and serving the needs of both large and small business customers. The new emphasis on marketing techniques is driven in large part by increasing competition in the marketplace. Business customers demand top quality services and highly sophisticated products at affordable prices. To meet these needs, marketing groups within the corporation have concentrated their efforts on developing creative solutions to rapidly changing customer needs.

Marketing opportunities

At the heart of every business lie two important tasks: managing information and communicating information. In the past these were separate and distinct tasks. Large companies, for example, had computers to manage information and used telecommunications equipment to move it. But this is changing quickly.

Increasingly, the telecommunications and computer functions are converging, driven together by the unifying capabilities of digital technology. This convergence is creating a growing demand for fully integrated voice and data systems. The rapid merging of computers and telecommunications into a multi-functional office environment is creating many marketing opportunities for SaskTel both now and in the years ahead.

SaskTel is committed to providing high quality services at the most affordable rates. The number and variety of products and services available at the Business Centre testify to that commitment.

AutoPhone puts office on wheels

Traveling time, the nemesis of busy people who spend many hours in their vehicles, can rob a business of productive work time. The mobile telephone, often considered a luxury, is now rapidly becoming standard business equipment — a way of using traveling time more productively.

That's one reason why Mark Wouters, a Saskatoon realtor, leases an AutoPhone mobile telephone from SaskTel. He says it helps him use his time more productively. Like most realtors, he spends much of his day out of the office, showing homes to clients.

Besides his AutoPhone, an electronic beeper also helps him maintain contact with his home and office. Most paging messages, however, instruct him to telephone clients. Before AutoPhone, he had to use a client's phone, or spend more time finding a pay phone to return the call. As his clients waited for a response, other calls would stack up.

"AutoPhone frees up a lot of time for business calls," Mark says. "I spend two to three hours a day in my car. With AutoPhone, it's now two to three hours of productive time."

AutoPhone helps Mark respond quickly to clients, and that's important for several reasons. For example, when people list their homes, they want assurance that their realtors are efficient and professional. Responding quickly with AutoPhone helps him show that he is. Another advantage is when he's driving around the city looking at homes with a client, and they notice a "For Sale" sign on someone's lawn, he can telephone for information immediately. Responding quickly provides him with a competitive edge over other realtors who don't have an AutoPhone.

Mark works with Re/Max, a realty network with offices throughout North America. He says he'll often get a phone call from a realtor in Vancouver, or Montreal, or even Palm Beach, Florida. These calls are from busy people with valuable leads. Responding quickly is crucial. As soon as he gets a message, he direct distance dials on AutoPhone.

Mark has used other mobile telephone systems. When he was working in northern Ontario at a Hudson Bay post, he used a mobile radio to order supplies. When he was working in northern Saskatchewan, flying a Beaver airplane, his mobile telephone came in handy on many occasions.

His biggest complaint about previous mobile systems was the inconvenience of having to push a button to speak. He likes AutoPhone because he can make most of his calls without the aid of a mobile operator, and the unit needs no special operating techniques; he just talks the way he would on a normal telephone. He says people are seldom aware he's telephoning from his car.

For Mark, like all people in business, making time productive is important. He spends only about an hour every three days at Re/Max's downtown office, preferring to work out of his house which has a computer link for real estate listings, and out of his car.

"It's hard to say just how much time AutoPhone has saved me," says Mark, "but I have handled as many as forty calls in one day."

Whether making appointments, obtaining information, or contacting his office, Mark says his AutoPhone is indispensible to his office on wheels.

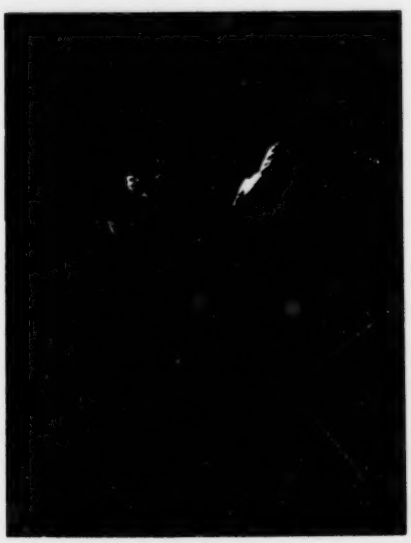
Mark Wouters finds his AutoPhone helps him use his time more productively.

SL-1
Popular system with the hospital industry

Linda Zordel is one of two assistant administrators at the Plains Health Centre located in the southeast section of Regina. It's a 300-bed teaching hospital with approximately 1,000 employees.

The Plains specializes in cardiac care and neurosurgery and patients are referred to the hospital from many areas of southern Saskatchewan for treatment. On the average, 180 of these beds are occupied by patients from outside Regina.

As assistant administrator, Linda has many duties. Among these was the responsibility of making sure SaskTel received all the cooperation it needed to install a Meridian SL-1 telephone system. She speaks frankly about their old telephone system, which was installed in the early 1970s.



Seated at the operator's console of the Plains Health Centre C.T. scanner is Rhonda Fidyk, a registered medical radiation technologist. The SL-1 is vital in the technologist's daily communication with medical, nursing and clinical staff.

THE MERIDIAN SL-1

Intelligence

For Telephone Systems from 30 to 5,000

THE MERIDIAN SL-1 is a telephone system with intelligence.

Intelligence that can collect and analyze data on the source, destination and length of voice or data calls entering or leaving its system.

Intelligence that can automatically choose the most economical route for long distance voice or data calls.

Intelligence that can store and retrieve up to 1000 preselected telephone numbers for speed dialing.

Intelligence that can detect faults in its own system and indicate them immediately.

Intelligence that can grow with your future.

For more information on the intelligence of the Meridian SL-1 System, call us toll free 1-800-667-6000.

Business Centres
Regina: Cornwall Centre
2121 Saskatchewan Drive
347-5080

Saskatoon: Army & Navy Mall
119 4th Avenue South
931-6037

SaskTel

"We couldn't put any more phones in the building," she says. "Our lines were full. Some people who needed their own phone had to share."

The hospital's previous system not only was outdated, its switch required three large equipment cabinets which took up a lot of floor space. It used rotary dial telephones and needed bulky equipment to upgrade them to handle multiple lines. Conversations were often interrupted by people picking up lines in use. Calls were sometimes lost while being transferred.

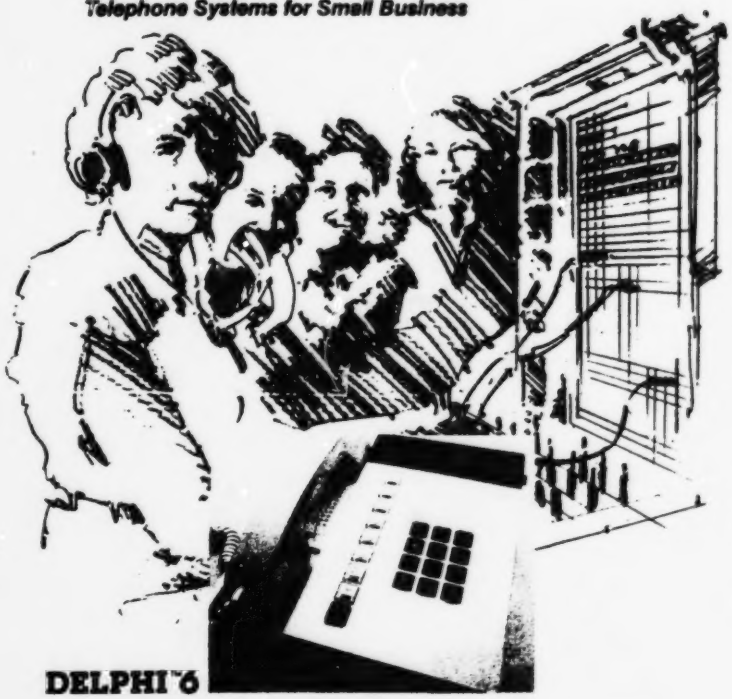
The Plains switched over to its 500-local SL-1 system in April, only six months after Harvey Fox, Executive Director of the South Saskatchewan Hospital Centre, signed an agreement with SaskTel. The new computer-driven switching equipment fits neatly into a compact cabinet about half the size of the old system. It sits in the basement in a climate-controlled room and systematically diagnoses itself for malfunctions. Any problems are quickly resolved by a SaskTel service team.

The touch tone SL-1 system offers many specialized features. Like

THE DELPHI 6

Digital

Telephone Systems for Small Business



DELPHI™6

It's like having your own mini switch board.

Advanced computer technology makes features normally available only to larger systems possible with Delphi 6.

Speed dial, hands free, intercom, conferencing, last number redial, call forwarding and more.

The Delphi 6 will bring your telephone communications out of the past.

For more information on the computer based Delphi 6 call us toll free 1-800-667—6000.

Business Centres
Regina: Cornwall Centre
2121 Saskatchewan Drive
347-5060

Saskatoon: Army & Navy Mall
110 4th Avenue South
931-6037

SaskTel

ring again. When Linda makes a call to a person in another department, and the line is busy, she activates ring again and hangs up. The system signals her when the line is free. This feature avoids the frustration of repeatedly calling a busy number.

Or *call forwarding*. When social workers must leave the office to see a patient, they can make their calls ring at a secretary's desk or a messaging service. And with *call park*, if it's an emergency call, the secretary can page the social worker, who can pick up the call on a nearby phone.

Another often-used feature is *speed dialing*. It lets Linda call anyone, on a list she has made, by simply dialing two numbers. In the pharmacy, employees can speed dial a list of more than eighty pharmaceutical companies all over North America. Speed dialing is also used elsewhere in the hospital.

"When a registered nurse from a nursing unit books off sick, for example," says Linda, "we have to find a replacement. Sometimes twenty or more people may be phoned before one is found and speed dialing really helps."

At the Plains Health Centre, the *Autoquote* option automatically keeps track of each patient's long distance calls, which must be paid upon discharge. The SL-1 also keeps track of long distance calls by individual departments. This gives department heads responsibility for calls from their departments and provides the hospital with greater budgetary control over long distance costs.

The sophisticated design of the digital SL-1 system provides flexibility and compatibility with computer systems, allowing it to easily accommodate changes in the years ahead. Its software control also allows each SL-1 system to be tailored to the specific needs of individual customers.

Like many large business customers, health care officials rely on computers to operate as cost-effectively as possible. At the Plains, pharmacy personnel keep patient medication profiles on computers and the medical library draws articles and information from other libraries or data sources with the use of electronic mail. In addition, the admitting department records vital information about patients on a computer system which is shared by outpatient departments in the hospital.

The University Hospital in Saskatoon switched to an SL-1 system in 1984. The Plains Health Centre's system became operational in April 1986, and the Pasqua Hospital's in May 1986. The Regina General Hospital will be upgraded to a similar system early in 1987. ■

Marketing expertise worldwide

SaskTel International

Early in 1986, SaskTel formed a wholly owned subsidiary, SaskTel International, to aggressively pursue opportunities to export its skills and technical expertise around the world.

Capitalizing on the corporation's international reputation as a leader in fiber optics technology, SaskTel International offers a broad range of technical and management services. To date, a major part of its activities have been focused on assisting countries to modernize and expand their telecommunications systems.

The services available through SaskTel International cover all facets of providing a modern, cost-effective telecommunications system. These include technical consulting and assistance with all phases of project management from planning through construction, operation, and maintenance.

Telecommunications is a global industry. Opportunities abound for the experience SaskTel has developed in meeting the needs of its customers here at home.

"Our efforts are directed toward positioning ourselves as a telecommunications leader," said Bill Bruce, President of SaskTel International, "but it takes time because the international market is extremely complex."

Mr. Bruce pointed out that the international marketplace for telecommunications services and equipment is extremely large with fierce competition on all fronts. Fully two-thirds of the world's people share less than 10 percent of the world's 600 million telephones. These statistics attest to an urgent global need as much as they do to tremendous business opportunities.

Sale to Jilin

SaskTel International to date has received more than 60 delegations from many countries, including China, Australia, India, Sweden, Denmark, and the United States.

A two-week visit by a delegation from the province of Jilin, People's Republic of China, culminated in a $500,000 agreement to supply refurbished telephone equipment and provide training programs both here and in Jilin. The equipment is now being prepared and the agreement calls for all of the small switching units to be delivered to China by September 1987.

CCI: The China connection

In 1986 SaskTel International became a member of a consortium that will expand its marketing opportunities in far east countries, particularly in China.

CCI Canadian Communications International, comprising Canadian telecommunications companies interested in Pacific Rim opportunities, operates from its Canadian headquarters in Vancouver, with an international office in Hong Kong.

It is anticipated that the accumulated expertise and combined strengths of the member companies will provide the marketing edge needed to gain a strong foothold in the burgeoning, but extremely competitive world market.

CCI has its eye on countries like China for good reason. As a developing country, China has announced it will spend more than $5 billion to expand its telecommunications capabilities. China believes that a modernized telecommunications network holds the promise of spurring economic and social development.

China has one billion people but fewer than [illegible] million telephones. That [illegible] telephones for [illegible]

Other 1986 highlights

9-1-1 for Saskatoon

Saskatoon became the second city in the province to have emergency access to police, fire, and ambulance services by calling 9-1-1. Like the Regina system, once a 9-1-1 call is received the caller's telephone number and location quickly appear on a video display screen at the city's police station. Specially trained personnel, on duty 24 hours a day, then take the appropriate action to assist the caller.

Nationwide fiber optic network

Eight hundred kilometres of fiber optic cable will be used by SaskTel for the Saskatchewan portion of the nationwide fiber optic network. Northern Telecom Canada Limited is supplying this cable from the same Saskatoon plant that supplied the cable for the province-wide fiber optic transmission system completed in 1984.

Member companies of Telecom Canada are responsible for constructing the portion of the new network within their serving area. The 7,100 kilometre, coast-to-coast fiber optic network will cost about $300 million and be completed by 1990.

Review board tours province

Telephone exchange area boundaries were the topic of discussion at public meetings held throughout the province in July and August.

Local residents of 22 communities made presentations to the four-member board concerning the revision of their existing exchange area boundaries.

The telephone Exchange Area Boundaries Review Board, appointed by the Minister Responsible for SaskTel, consisted of chairperson Helen Krozser, a teacher who lives in Markinch and is a member of SaskTel's Board of Directors; Ruth Berscheid, who farms near Lake Lenore; and Jim Van Eaton, a Shellbrook area farmer. Bill Simes, a SaskTel employee, served as the board's resource person.

110 take early retirement

Under an early retirement program offered in 1986, 110 long-term employees opted to retire from SaskTel. The voluntary program followed a similar one offered in 1983 when 156 employees chose to retire early. Both programs were implemented to reduce staff levels as part of a determined effort to avoid layoffs.

Melfort and Prince Albert now TOPS

With the installation of TOPS (Traffic Operator Position Systems) at Melfort and Prince Albert in 1986, the days of the cord-and-jack switchboards have virtually come to an end. The new computer-assisted units, which have a video display terminal and keyboard, allow operators to handle a greater number of operator-assisted calls.

The installation of TOPS units in SaskTel's north division marked the completion of a province-wide modernization program. Similar units went into service at Estevan, Moose Jaw, Regina, Saskatoon, Swift Current, Weyburn, and Yorkton under an earlier phase of the program.

Autoquote proves popular

A new service called Autoquote is helping the hotel industry, hospitals, and a number of other businesses to save time when keeping track of long distance charges. With Autoquote, a compact computer terminal on a customer's premises automatically prints a record of the length and cost of each call.

Autoquote virtually eliminates the potential for human errors that occurred with the previous system when SaskTel operators verbally supplied time and charges information to business customers.

End of an era
Dialing "112" for long distance access is now a thing of the past in Saskatchewan. On March 9, 1986, the last of four remaining telephone exchanges were converted to 1+ dialing. While meaning a little less work for the fingers when making a direct long distance call, the event signalled the end of a significant era in Saskatchewan telephone history.

The availability of 1+ dialing province-wide marks a milestone in SaskTel's five-year, $34.5 million program to upgrade a major portion of the provincial long distance system. Customers in smaller centres now receive faster, higher quality services and access to many of the advanced features such as direct dialing overseas and 0+ dialing, provided by digital switching equipment.

Dialpac now province-wide
Dialpac, a new discount long distance service, is now available to business and residence customers in most communities throughout Saskatchewan. Customers realize savings that average 53 percent over regular daytime rates for direct-dialed calls.

Dialpac customers can purchase either a 30 or 40-minute calling package per month to a maximum of three nearby telephone exchanges, provided the exchanges chosen are within a 40-mile radius. Details of the plan are available from SaskTel business offices.

Assets sold
In September, SaskTel's Board of Directors approved the sale of the land beneath the Cornwall Centre to The Cadillac Fairview Corporation Ltd. for $21 million. The land originally had been purchased on behalf of the provincial government as part of a land assembly project to rejuvenate Regina's downtown core area. SaskTel continues to own the land beneath its head office at 2121 Saskatchewan Drive.

During the year, SaskTel sold its local cable TV distribution systems to provincial cable operators for $26.4 million. These cable TV operators now own the coaxial cable used to carry TV signals into their customers' homes.

SaskTel also sold to Sask Housing the land the corporation owned under the Sask Housing development adjacent to the Cornwall Centre. This land also had been acquired as part of the Cornwall Centre land assembly project.

Safety first
Regardless of the job, getting it done safely is a high priority. This sums up SaskTel's philosophy on safety and reflects a goal to become one of the top Canadian telecommunications companies in occupational safety records.

Significant improvements in the corporation's safety record have been made in the last three years as the result of accident prevention programs.

Competitive truck road-eos were continued in 1986, and a back-care seminar, along with a series of family safety presentations on defensive driving and first-aid training also took place.

Year end	1986	1985	1984
Lost-time accidents . . .	**52**	70	76
Vehicle accidents . . .	**144**	155	174
Accidents per 100,000 km .	**0.5**	0.7	0.7

Coinless payphones introduced
Coinless payphones were introduced during 1986 to reduce waiting time at busy locations like airports and hotels. The charge-a-call phones handle only operator-assisted long distance calls and are being installed in about 50 communities throughout Saskatchewan. Customers can pay for their calls by using a SaskTel credit card, by calling collect, or by charging the call to an appropriate third party.

Penny Pincher patented
Cable subscribers in Saskatchewan may soon be able to use a new device which allows low-cost access to premium TV channels. With the Penny Pincher a customer pays only for the hours spent watching premium TV channels rather than a flat monthly rate.

During the year, Image Cable Systems of Yorkton conducted a field trial of the innovative apparatus in Balcarres. Basic cable subscribers in Balcarres could select any of the pay-TV channels available and were charged 75 cents an hour, plus taxes.

The Penny Pincher was developed jointly by SaskTel and Global Technologies Incorporated, a Saskatchewan-based company that is also manufacturing the units. SaskTel International is responsible for worldwide marketing of the device.

Financial highlights

The 1986 financial statements which follow reflect sustained growth in operating results and a stable financial position for the corporation.

Operating revenues for 1986 totalled $449.6 million, up $25.9 million or 6.1 percent over 1985. The increase was primarily due to volume growth and increased participation in out-of-province settled revenues. Total operating revenues were reduced by uncollectibles of $2.0 million.

Long distance revenues of $292.4 million increased by $21.2 million or 7.8 percent over 1985. In-province calling, which grew 5.2 percent, accounted for $7.1 million of the increase with out-of-province toll revenues rising by $14.1 million or 10.4 percent.

Local service revenues, consisting primarily of subscriber equipment rentals, service connection charges, public telephone revenues and local private line services totalled $121.4 million in 1986, an increase of $3.6 million or 3.1 percent over 1985.

Other operating revenues amounted to $37.9 million, up $2.1 million or 5.9 percent over 1985. Included in this revenue category are directory advertising, building and other rent revenues, cable television services, tier sales revenue and subscriber late payment charges.

Operating expenses for the year amounted to $347.0 million, an increase of $28.8 million or 9.1 percent over 1985. Components contributing to this increase were added maintenance and operations costs of $10.0 million, additional depreciation charges of $8.2 million and additional general and administrative costs of $10.6 million.

The most significant factors related to maintenance expense, in addition to increases in the normal cost of doing business, are increased marketing activity and additional maintenance related to the increase in construction activity. The higher depreciation is related to the expanded plant in service in 1986. Included in the increased general and administrative costs are the continued development and associated costs of several new mechanized systems.

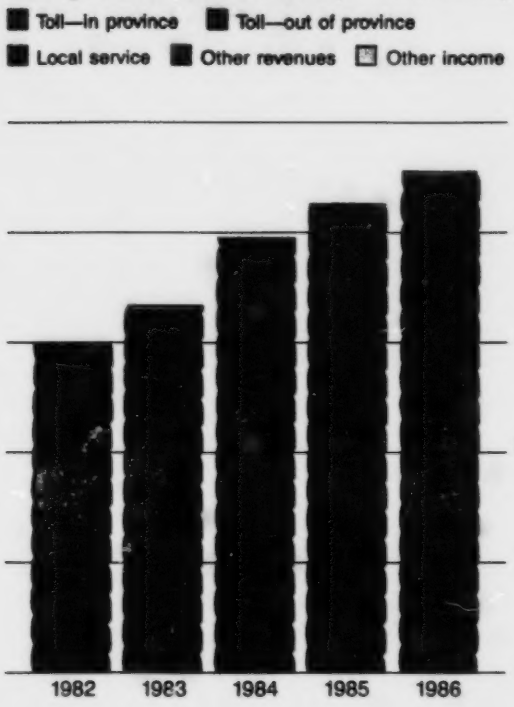
Other income of $4.8 million was up $1.6 million or 51.1 percent over 1985 primarily due to maintenance revenue and finance income resulting from the sale of the coaxial cable distribution system to Saskatchewan cable operators.

Interest and related costs, net of interest charged construction and earnings on sinking funds and temporary investments, amounted to $70.8 million, a decrease of $.9 million or 1.1 percent over 1985. Lower interest and other charges due to a slight recovery of the Canadian dollar in relation to the U.S. dollar, combined with higher sinking fund earnings, contributed to the net decrease in costs.

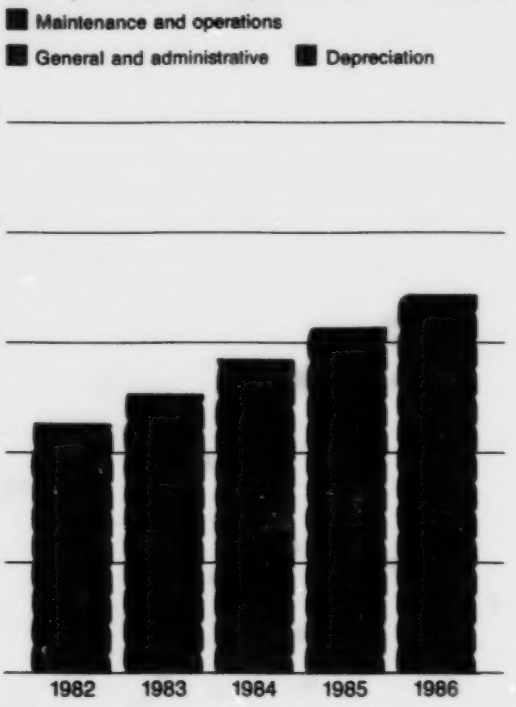
Net earnings for the year of $36.5 million represents a 4.3 percent rate of return on average capital employed. This compares with the rate achieved in 1985 of 4.4 percent and the average rate achieved over the ten year period, 1976 to 1985 of 3.9 percent. One half of the net earnings for 1986 have been declared as a dividend payable to the Crown Investments Corporation of Saskatchewan.

Cash flow from operations, financing and construction activities in 1986 resulted in a $1.4 million increase in our cash position at year end. Of significance, is that cash generated by operating activities was up $10.3 million from 1985 with net construction expenditures up by $36.5 million or 39 percent over 1985. As a result, the corporation's self financing ratio on net construction expenditures was 91 percent in 1986 compared to 108 percent in 1985. Financing activities consisted of borrowing $37.6 million for construction requirements, dividend payment, and debt reduction in excess of cash from operations. The corporation's debt ratio improved slightly from 77.7 percent in 1985 to 76.6 percent at the end of 1986.

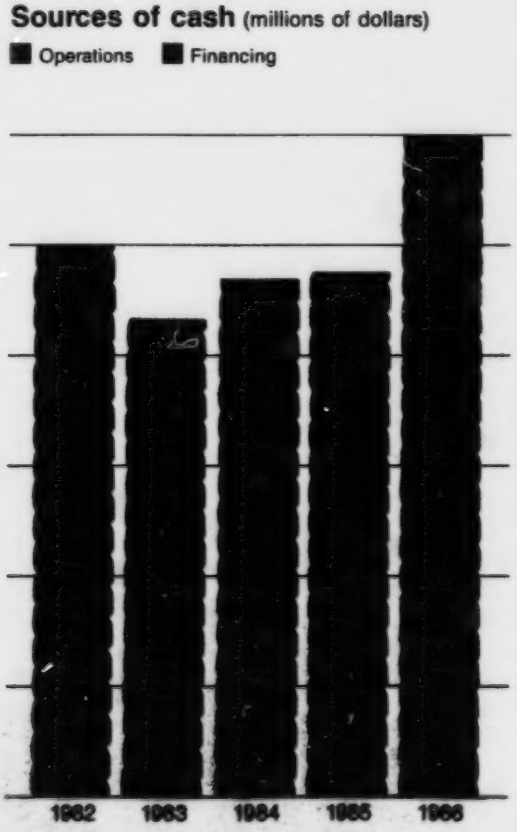
Components of revenue (millions of dollars)



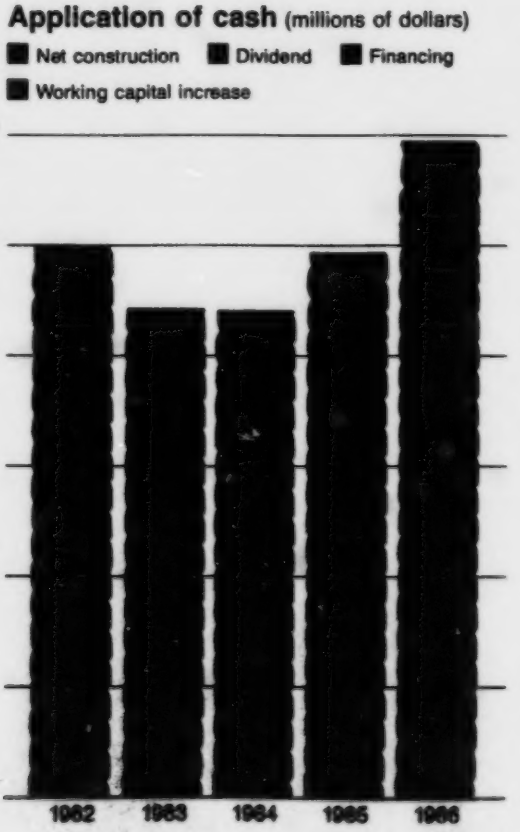
Components of expense (millions of dollars)



Sources of cash (millions of dollars)



Application of cash (millions of dollars)



Five-year record of service

For the year ended December 31

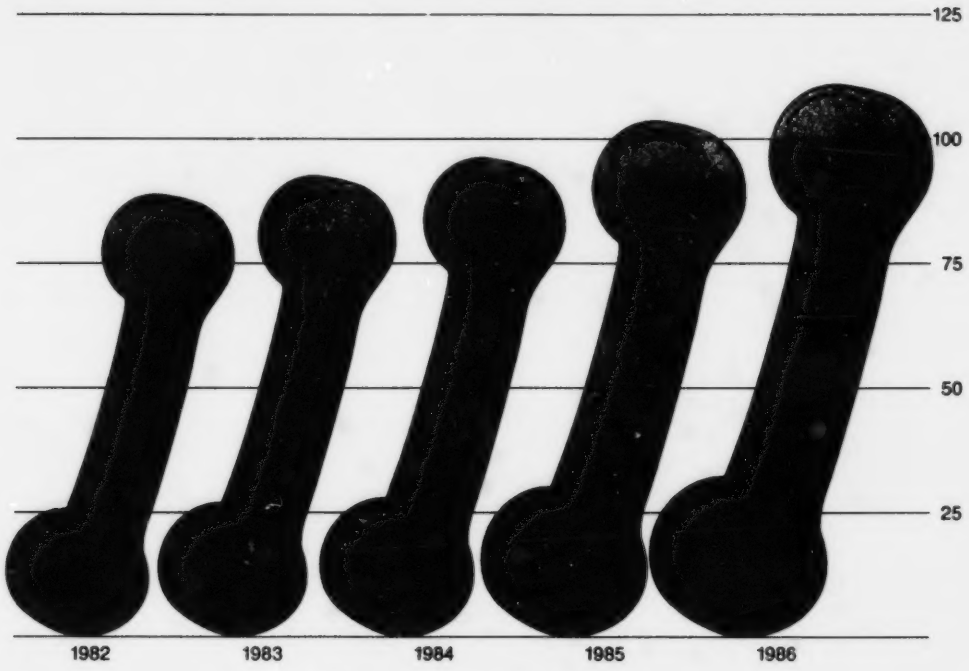
	1986	1985	1984	1983	1982
Network access services**	522,674	508,836	497,483	484,538	467,914
Telephones					
SaskTel owned*	738,709	724,439	711,465	695,964	677,963
Rural company owned (switched by SaskTel)*	1,360	1,633	1,744	2,002	2,222
Originated long distance messages (in thousands)					
Telephone	94,768	91,561	86,177	82,994	79,451
Data, and other voice services	15,931	12,802	10,208	8,931	7,742
Total messages	110,699	104,363	96,385	91,925	87,193
Finance (in thousands of dollars)					
Operating revenues	$ 449,622	423,678	392,021	330,418	293,634
Operating expenses	347,033	318,194	287,705	255,533	229,313
Other income	4,776	3,161	2,701	2,118	1,879
Interest and related costs	70,845	71,661	71,417	65,029	58,581
Net earnings	36,520	36,984	35,600	11,974	7,819
Dividend	18,260	18,492	17,800	5,987	3,900
Gross construction expenditures	144,575	108,768	93,951	116,649	121,509
Property, plant, and equipment*	1,301,163	1,260,355	1,192,832	1,132,965	1,046,497
Long-term debt — gross*	780,872	760,385	752,406	714,741	712,868
Financial ratios					
Return on average capital employed	4.3%	4.4%	4.3%	1.5%	1.1%
Debt as a percent of year-end capital*	76.6%	77.7%	79.3%	81.2%	80.8%
Internally generated funds as a percent of net construction expenditures	91.1%	107.7%	125.6%	72.8%	58.8%
Employees and payroll					
Number of employees*	4,504	4,458	4,382	4,400	4,578
Salaries earned (thousands of dollars)	161,414	147,908	138,528	131,946	124,040

** Represents each working facility having primary connection to our network as at December 31

* At December 31

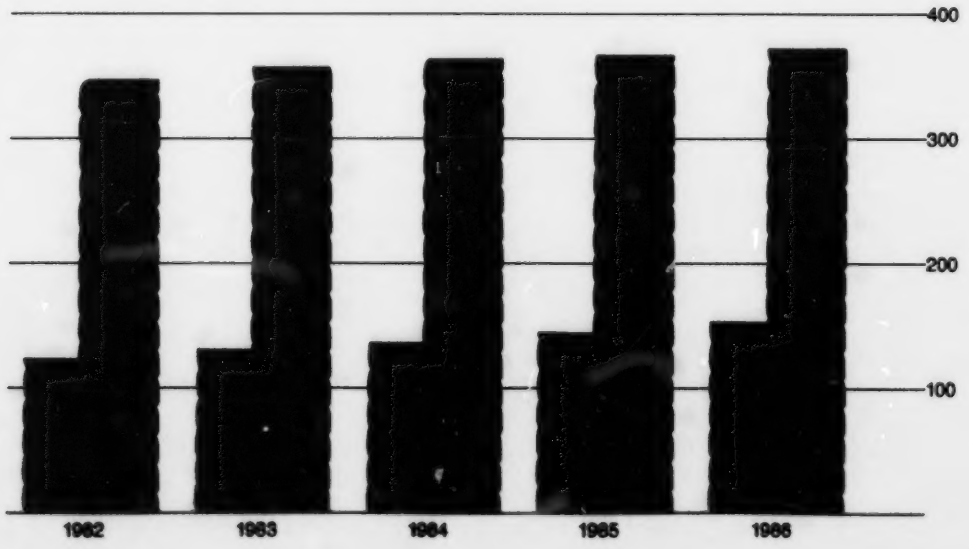
Long distance messages (in millions)

■ Customer dialed ■ Operator handled



Network access services (in thousands)

■ Residence ■ Business

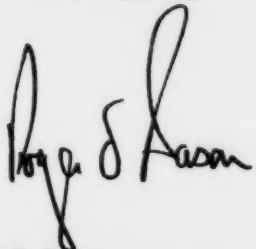


Management's responsibility for financial statements

The financial statements which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been examined and approved by the Board of Directors. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, an organization structure that segregates duties, and a comprehensive internal audit program. These measures provide reasonable assurance that transactions are recorded and executed in compliance with legislation and required authority, that assets are properly safeguarded, and that reliable financial records are maintained.

The Board of Directors fulfills its responsibility with regard to the financial statements principally through its Audit Committee, consisting solely of outside directors, which meets periodically with management as well as with internal auditors and the Provincial Auditor. The latter, who reports to the Legislative Assembly, has free access to this committee to discuss his audit work and his opinion on adequacy of internal financial controls, and the quality of financial reporting.



R.E. Bason
Vice President
Finance and Corporate
Development

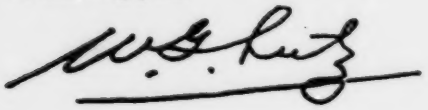
Regina, Saskatchewan
February 2, 1987

Auditor's report

To the members of
the Legislative Assembly
Province of Saskatchewan:

I have examined the consolidated statement of financial position of Saskatchewan Telecommunications as at December 31, 1986 and the consolidated statements of operations and retained earnings and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of Saskatchewan Telecommunications as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



W.G. Lutz, F.C.A.
Provincial Auditor

Regina, Saskatchewan
February 8, 1987

Consolidated statement of operations and retained earnings

For the year ended December 31

		1986	1985
			(Thousands of dollars)
Operating revenues			
	Long distance service	**$292,377**	$271,214
	Local service	**121,395**	117,817
	Other	**37,865**	35,794
	Uncollectible operating revenues	**(2,015)**	(1,147)
		449,622	423,678
Operating expenses			
	Maintenance and operations	**140,278**	130,205
	Depreciation (Note 2)	**88,288**	80,123
	General and administrative	**118,467**	107,866
		347,033	318,194
Net operating revenue		**102,589**	105,484
	Other income	**4,776**	3,161
		107,365	108,645
Interest and related costs (Note 3)		**70,845**	71,661
Net earnings		**36,520**	36,984
	Retained earnings, beginning of year	**191,485**	172,993
		228,005	209,977
	Dividend	**18,260**	18,492
Retained earnings, end of year		**$209,745**	$191,485

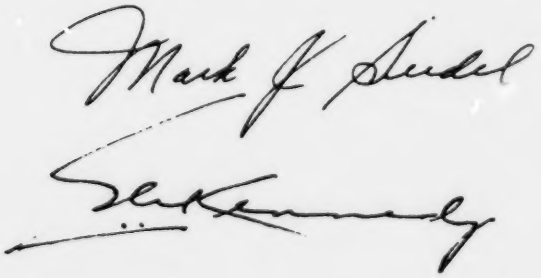
See accompanying notes

Consolidated statement of financial position

As at December 31

		1986	1985
			(Thousands of dollars)
Assets			
	Property, plant and equipment (Note 4)	**$794,426**	$796,498
	Investment — Telesat Canada (Note 5)	**999**	999
	Current assets		
	Cash	**3,803**	2,447
	Accounts receivable	**67,118**	58,499
	Prepayments	**3,521**	3,011
		74,442	63,957
	Investment in leases (Note 6)	**15,475**	12,930
	Notes receivable (Note 7)	**34,478**	—
	Deferred charges (Note 8)	**54,663**	55,703
		$974,483	$930,087
Liabilities and province's equity			
	Long-term debt (Note 9)	**$667,406**	$655,670
	Province's equity		
	Retained earnings	**209,745**	191,485
	Current liabilities		
	Accounts payable	**39,823**	32,052
	Notes payable (Note 10)	**10,000**	5,000
	Interest accrued	**16,228**	15,798
	Dividend payable	**18,260**	18,492
	Service billed in advance	**5,463**	5,359
	Current portion of long-term debt (Note 9)	**7,558**	6,231
		97,332	82,932
		$974,483	$930,087

Approved by the Board



See accompanying notes

Consolidated statement of changes in cash position

For the year ended December 31

		1986	1985
		(Thousands of dollars)	
Cash from operation			
	Net earnings	**$ 36,520**	$36,984
	Add: Depreciation and other items not requiring or generating cash (net)	**100,084**	82,098
	Total from operations	**136,604**	119,082
	Net change in working capital (Note 11)	**(824)**	(610)
	Funding of early retirement benefit costs	**(7,012)**	—
	Cash provided by operating activities	**$128,768**	$118,472
Cash from financing			
	Proceeds from notes payable	**$5,000**	$5,000
	Proceeds from long-term debt	**32,598**	—
	Repayment of long-term debt	**(16,667)**	(16,788)
	Dividend payment	**(18,492)**	(17,800)
	Cash provided by (used in) financing activities	**$2,439**	$(29,588)
Cash for construction			
	Gross construction expenditures	**$(144,575)**	$(108,768)
	Change in material and supplies	**(2,416)**	(1,002)
	Net salvage, capital contributions, and other items not requiring cash	**17,140**	16,371
	Cash used in construction activity	**$(129,851)**	$(93,399)
	Net increase (decrease) in cash during the year	**$1,356**	$(4,515)
	Cash position at beginning of year	**2,447**	6,962
	Cash position at end of year	**$3,803**	$2,447

See accompanying notes

Notes to consolidated financial statements

Note 1 — Status of the corporation

The provincial telephone system, in operation since 1908 as a department of government, was established as a crown corporation on June 1, 1947, under the name of Saskatchewan Government Telephones. On April 1, 1969, pursuant to the Saskatchewan Government Telephones Change of Name Act, 1969, the corporation's name became Saskatchewan Telecommunications.

The corporation, under the provisions of its Act, constructs, maintains, and operates a provincial telecommunications system, provides telecommunications services, and participates in establishing, constructing, and operating a co-ordinated telecommunications system in Canada.

The corporation is subject to regulation under the terms of the Public Utilities Review Commission Act proclaimed in full force and effect December 16, 1982.

The financial results of the corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

Note 2 — Summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

Consolidation

The consolidated financial statements include the accounts of the company's wholly-owned subsidiary, Saskatchewan Telecommunications International, Inc. All significant intercompany transactions have been eliminated.

Property, plant, and equipment

Property, plant, and equipment is recorded at original cost and includes materials, services, direct labor and associated benefit costs, which are readily quantifiable and identifiable with the construction activity. In addition, the corporation includes the cost of funds used to finance construction, based on the size and duration of the projects.

Depreciation

Depreciation is computed on the straight-line equal-life group method using rates as determined by a continuing program of engineering studies for each class of property in service.

When depreciable telephone property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

The composite depreciation rate on the average depreciable telecommunications property in service was 7.29 percent in 1986 (6.96 percent in 1985).

As at December 31, 1986, the ratio of accumulated depreciation to depreciable telecommunications property was 41.0 percent (38.7 percent in 1985).

Cost of early retirement plan benefits

Benefit costs under the corporation's 1986 early retirement plan of $7,012,242, included a lump sum payment to the superannuation fund of $6,467,417. SaskTel will amortize the cost of the plan over 24 months commencing September 1986. The annual amounts to be expensed are as follows:

1986 —	$1,168,742
1987 —	3,506,100
1988 —	2,337,400
	$7,012,242

Gain on retirement of long-term debt before maturity

From time to time, long-term debt is retired prior to maturity through cancellation of the Province of Saskatchewan debentures held in the sinking fund. Any resulting gain is amortized on a straight-line basis over the remaining life of the debentures cancelled.

Foreign currency translations

Net long-term debt payable in foreign currency is stated in Canadian dollars at the foreign exchange rate prevailing at December 31. Foreign exchange gains or losses arising on translation of long-term debt are included in deferred charges and are amortized on a straight-line basis over the current year and the remaining life of the debt.

Interest accrued on long-term debt payable in foreign currency is recorded in Canadian dollars at the foreign exchange rate prevailing at year end. Interest paid during the year on long-term debt is translated at the currency rate prevailing at the interest payment date. Any gains or losses relating to these items are charged to income in the current period.

Sales-type lease accounting

Under this policy, sales revenue is recognized immediately and the present value of future lease payments not due within the next year are recorded as long-term receivables. Finance income is recognized as lease payments are received under contract terms and in a manner that produces a constant rate of return on lease investment.

Note 3 — Interest and related costs

	1986	1985
	(Thousands of dollars)	
Interest charges	$ 82,934	$ 82,235
Amortization of discount	499	650
Amortization of foreign exchange provisions	3,244	3,460
	86,677	86,345
Less: Sinking fund earnings	13,381	11,699
Gain on debt retirement	127	196
Interest charged to construction	1,395	1,471
Interest on temporary cash investments	929	1,318
	$ 70,845	$ 71,661

Note 4 — Property, plant, and equipment

	1986	1985
	(Thousands of dollars)	
Buildings, plant, and equipment	$1,237,193	$1,199,505
Land	8,596	27,336
Plant under construction	38,189	18,746
Materials and supplies	17,185	14,768
	1,301,163	1,260,355
Less: Accumulated depreciation	506,737	463,857
	$ 794,426	$ 796,498

Note 5 — Investment in Telesat Canada

This investment represents 99,900 no par value common shares of Telesat Canada at an issue price of $10 per share.

Note 6 — Investment in leases

Finance income from sales-type leases amounted to $2,393,000 ($1,953,000 in 1985) with the corporation's net investment, as at December 31, composed of net minimum lease payments and unearned finance income, as follows:

	1986	1985
	(Thousands of dollars)	
Total minimum lease payments receivable	$ 28,066	$ 23,589
Less: Unearned finance income	8,788	7,817
	19,278	15,772
Less: Current portion included in accounts receivable	3,803	2,842
Investment in leases	$ 15,475	$ 12,930

Note 7 — Notes receivable

	1986
	(Thousands of dollars)
This consists of the following:	
Notes receivable — Cable operators	$ 25,837
Note receivable — Cadillac Fairview Shopping Centres	11,750
	37,587
Less: Current portion included in accounts receivable	3,109
	$ 34,478

Notes receivable — Cable operators

This consists of seven, ten-year notes receivable bearing interest at 11% due October 1, 1996. The tangible portion of the cable television distribution systems sold to specific operators in the province has been pledged as collateral against these notes.

Note receivable — Cadillac Fairview Shopping Centres

This consists of a non-interest-bearing note receivable due December 31, 1990, the gross amount of which is $16.0 million. This note receivable has been discounted at 11.93 percent to a net principal amount of $11.75 million. Lease rents have been pledged as collateral against the note.

Note 8 — Deferred charges

	1986	1985
	(Thousands of dollars)	
Applicable to long-term debt:		
Unamortized discount	$ 5,287	$ 5,786
Unamortized unrealized net foreign currency losses	43,892	50,404
	49,179	56,190
Less: Unamortized gain on retirements before maturity	359	487
	48,820	55,703
Unamortized early retirement plan benefit costs	5,843	—
	$54,663	$55,703

Note 9 — Long-term debt
Province of Saskatchewan

Percent	Issue date	Due date	Recorded debt outstanding 1986		1985
			(Thousands of dollars)		
5.650	1966	1986	—		7,401
13.375	April 1, 1981	April 1, 1986	—		1,045
5.698	1967	1987	2,682	(c)	2,682
6.000	Mar. 1, 1967	Mar. 1, 1987	2,928		2,928
6.549	1968	1988	2,000	(c)	2,000
7.541	1969	1989	10,100	(c)	10,100
8.093	1970	1990	9,806	(c)	9,806
4.875	Oct. 1, 1965	Oct. 1, 1990	8,145	(b)	8,250
7.125	1971	1991	9,461	(c)	9,461
16.375	Oct. 1, 1981	Oct. 1, 1991	69,025	(b)	69,915
7.528	1972	1992	15,093	(c)	15,093
7.689	1973	1993	8,644	(c)	8,644
13.375	Apr. 1, 1981	Apr. 1, 1996	73,955		73,955
7.750	Feb. 15, 1973	Feb. 15, 1998	5,000		5,000
8.250	Dec. 3, 1973	Dec. 3, 1998	15,000		15,000
10.000	Dec. 2, 1974	Dec. 2, 1999	25,000		25,000
11.750	June 2, 1980	June 2, 2000	25,000		25,000
9.875	Nov. 3, 1975	Nov. 3, 2000	2,222		2,222
10.250	Apr. 1, 1976	Apr. 1, 2001	25,000		25,000
9.000	Feb. 1, 1977	Feb. 1, 2002	25,000		25,000
13.000	Dec. 1, 1982	Dec. 1, 2002	75,000		75,000
12.250	Mar. 30, 1983	Mar. 30, 2003	25,000		25,000
9.500	June 15, 1978	June 15, 2003	30,000		30,000
11.650	1983	2003	8,182	(c)	8,182
12.966	1984	2004	28,956	(c)	28,956
10.000	May 15, 1979	May 15, 2004	40,000		40,000
8.700	Nov. 15, 1976	Nov. 15, 2006	69,025	(b)	69,915
9.583	1986	2006	32,598	(c)	—
8.625	May 15, 1977	May 15, 2007	69,025	(b)	69,915
9.250	April 27, 1978	April 15, 2008	69,025	(b)	69,915
			780,872		760,385
Less: Equity in sinking funds			105,908		98,484
Due within one year			7,558		6,231
Net long-term debt — December 31			$667,406		$655,670

(a) All long-term debt is unconditionally guaranteed as to principal and interest by the government of the Province of Saskatchewan.

(b) Represents long-term debt repayable in United States dollars having a U.S. face value of $205,900,000 converted to $225,599,000 Canadian at the time of issue. It is recorded at the Canadian dollar equivalent of $284,244,950 based on the foreign exchange rate prevailing as at December 31, 1986 of 1.3805 (1985 — 1.3983).

(c) Long-term debt totalling $127,522,000 received through the Canada Pension Plan under 20-year terms, is subject to redemption at six months notice.

(d) Under conditions attached to most long-term debt, SaskTel is required to pay annually into sinking funds administered by the Province of Saskatchewan amounts ranging from 1 percent to 3 percent of the original value of long-term debt received. The equity shown includes investments denominated in U.S. dollars held in the fund having a U.S. dollar value of $9,679,995 recorded at $13,363,231 Canadian dollar equivalent based on the foreign exchange rate prevailing as at December 31, 1986.

(e) Total sinking fund installments and long-term debt repayments (net of sinking fund equity) on outstanding debt over the next five years are as follows:

1987 — $ 7,558,000
1988 — $ 5,587,000
1989 — $ 6,909,000
1990 — $ 7,509,000
1991 — $77,527,909

Note 10 — Notes payable

Notes payable represents interim capital financing arranged under established lines of credit. As at December 31, 1986, there were $10 million (1985 — $5 million) of outstanding notes payable to the Province of Saskatchewan bearing interest at an average rate of 8.33 percent (1985 — 9.35 percent).

Note 11 — Net change in working capital

Cash provided (applied) by changes in working capital:

	1986	1985
	(Thousands of dollars)	
(Increase) decrease in current assets:		
Accounts receivable	($8,619)	($4,735)
Prepayments	(510)	(1,139)
Increase (decrease) in current liabilities:		
Accounts payable	7,771	4,628
Interest accrued	430	258
Service billed in advance	104	378
	($ 824)	($ 610)

Note 12 — Commitments

As at December 31, 1986, SaskTel was committed in the amount of approximately $35 million for construction materials, equipment and services related to switching modernization, building construction, and computer equipment.

Note 13 — Pensions

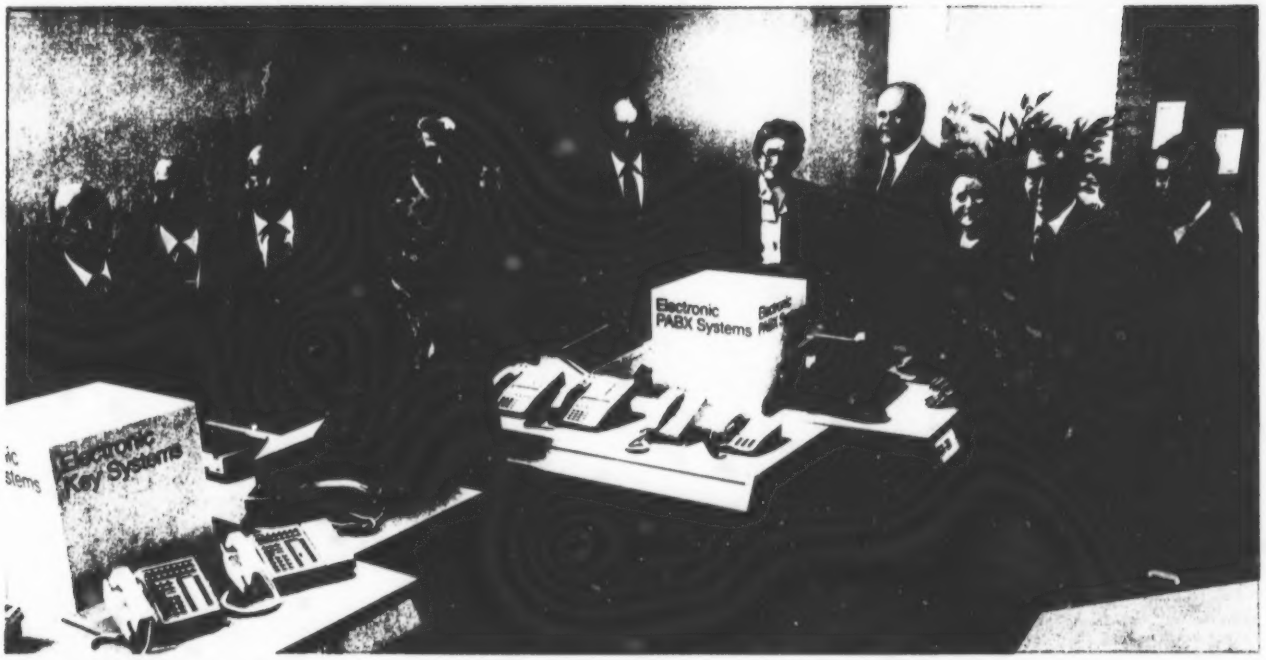
SaskTel provides for pension plans for substantially all employees. One of the plans is a money purchase plan and the amount to be paid is determined by The Superannuation (Supplementary Provisions) Act. For the other plan, the contributions are based on actuarial valuations. An actuarial valuation as at December 31, 1985, using the "accrued benefit" method to determine value of liabilities and the "attained age" method for determining adequacy of the long-term funding rate indicated that the employer contribution rate of 134 percent of employee contributions over the next 11 years would be adequate to fully fund all future service benefits and amortize past service costs of $4,998,407.

Note 14 — Related party transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan crown-controlled departments, agencies, and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to (from) related parties and the terms of settlement are described separately in the financial statements and the notes thereto.



L to r — Lyle Taylor; Jack McFaull; Garth Kennedy; Helen Krozser; Gerald Muirhead, Legislative Secretary to the Hon. Gary Lane; Doug Friend; Art Watt; Bertha Vanderhaeghe; Ted Urness; Bette Harris; Mark Seidel; Hon. Gary Lane.

Board of Directors

Garth Kennedy
Chairman
Regina

Hon. Gary Lane, Q.C.
Regina

Doug Friend
Rosetown

Bette Harris
Nipawin

Helen Krozser
Markinch

Jack McFaull
Saskatoon

Mark Seidel
Humboldt

Lyle Taylor
Melfort

Ted Urness
Saskatoon

Bertha Vanderhaeghe
Esterhazy

Art Watt
Craik

Committees of the board

Audit committee
Mark Seidel
Garth Kennedy
Bette Harris
Ted Urness

Corporate contributions committee
Lyle Taylor
Bertha Vanderhaeghe
Art Watt

Management resources and compensation committee
Doug Friend
Jack McFaull
Garth Kennedy

Marketing committee
Ted Urness
Garth Kennedy
Doug Friend

Corporate directory 1986-87

Executive officers

James A. Coombs
President &
Chief Executive Officer

Roger E. Bason
Vice President
Finance and Corporate
Development

David R. Carlin*
Vice President
Operations North

Christopher J. Elmer*
Vice President
Business Development

B. William Lambert**
Vice President
Engineering

S. Fraser Lee***
Vice President
Engineering

John C. Meldrum
Vice President
and Corporate Counsel

H. James Osborne
Vice President
Corporate Affairs

Barry E. Roberts
Vice President
Human Resources,
Supplies and Services

George A. Spencer
Vice President
Operations South

William A. Bruce
President
SaskTel International

*Effective January 1, 1987
**Effective March 1, 1987
***Retired February 28, 1987

Senior operating managers

Basil G. Ciepliski
General Manager
Operations Districts

Doug Campbell
General Manager
Facilities South

Dennis Czinkota
General Manager
Facilities North

David M. Harvey
General Manager
Product Development and
Marketing

Moe Hawrysh
General Manager
Network Planning & Provisioning

Betty A. Hoffart
Treasurer

Claire Ingles
General Manager
Human Resources

Jack T. Lax
General Manager
Industrial Relations

Ron L. Luebke
General Manager
Operations Saskatoon

John G. McGregor
General Manager
System Sales and Service

George Mueske*
General Manager
Corporate Information Systems

Donald J. Savaria**
General Manager
Public Affairs

Bill W. Simes
General Manager
Operations Districts

Norman F. Stepan
General Manager
Operations Regina

Randy R. Stephanson
Controller

Kenneth H. Thompson
General Manager
Services

Bill Wendel
General Manager
Network Systems and Methods

Fred E. Yeo
General Manager
Supplies and Services

*Effective January 5, 1987
**Effective January 19, 1987